DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY
INSTALLATIONS AND ENVIRONMENT
110 ARMY PENTAGON
WASHINGTON DC 20310-0110

REPLY TO
ATTENTION OF

November 4, 2003

The Honorable Duncan Hunter
Chairman
House Armed Services Committee
United States House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

Under Title 10 United States Code, Section 2688, the Army is required to notify the appropriate committees of the Congress before conveying a utility system to a municipal, private, regional, district, cooperative utility company or other entity.

A summary of the economic analysis supporting privatization of the O'ahu wastewater utility system, which services Fort Shafter, Tripler Army Medical Center, Aliamanu Military Reservation, Fort DeRussy, Waianae Army Recreation Camp, Schofield East Range, Hawaii, is enclosed. Privatization is expected to result in an estimated annual cost avoidance of $.524 million compared to the cost of continued Government ownership and operation.

This is to inform you that the Army intends to transfer the O'ahu, Hawaii, wastewater utility system and award a fifty-year contract for utility services to American Water Services, Inc. 21 days after the receipt of this letter.

Sincerely,

William A. Armbruster
Deputy Assistant Secretary of the Army
Privatization & Partnerships

Enclosure

cc: The Honorable Ike Skelton
Ranking Member

Department of the Army
O'ahu, Hawaii
Privatization of the Wastewater System

Economic Analysis Summary

October 2003

Executive Summary: The economic analysis conducted for the wastewater utility system O'ahu, Hawaii, demonstrates that privatization will reduce the Government's cost over the 50-year contract term. The economic analysis for the wastewater system resulted in an estimated annual cost avoidance of $524,080 when compared with respective costs of continued Government ownership and operation.

Overview of the Utility System: the O'ahu wastewater utility system consists of six sub-systems located at 1) Fort Shafter, 2) Tripler Army Medical Center, 3) Aliamanu Military Reservation, 4) Fort DeRussy, 5) Waianae Army Recreation Camp, and 6) the Fighter Lite School portion of Schofield East Range.

The Army currently collects wastewater from the O'ahu Wastewater System and conveys the influent to City and County of Honolulu wastewater treatment plants (WWTP) for treatment and disposal. Flows from sub-installations in Southern O'ahu are treated at the Sand Island WWTP, and Waianae Army Recreation Camp flows are treated at the Waianae WWTP.

In total the system is composed of approximately 232,830 linear feet of collection pipe, 881 manholes, 4 pumping stations (one at Fort Shafter, two at Aliamanu Military Reservation, and one at Schofield East Range), and 1 wastewater treatment plant (Tripler Army Medical Center). The system has a useful life of 48 years, and is maintained by a government workforce of 8.65 FTEs.

Description of the Government's "Should Cost" estimate (SCE): The Government's "should cost" is the total cost of service to own, operate, maintain and recapitalize the wastewater utility system. It is based on the number of employees, direct and indirect labor costs, contracting support, and the equipment and materials used to perform work on the wastewater utility system.

Recommended Fair Market Value: 10 U.S.C. Section 2688 requires the Army to receive fair market value for the utility system in return for conveying the system to the contractor. The Government determined the fair market value to be $20,700,272.

Procurement History:

1. The solicitation was issued 9 April 2002
2. One proposal was received from American Water Services (AWS) on 7 October 2002.
3. Source Selection Evaluation Board (SSEB) began its evaluation on 17 October 2002.
4. The SSEB issued its initial report on January 2003, which generated a series of negotiations and clarifications with AWS that lasted until May 2003.
5. AWS submitted its Best and Final Offer on 15 May 2003.

6. The SSEB completed the technical evaluation of the final proposal on 22 May 2003 and determined AWS as the best value.

Life Cycle Cost Analysis (LCCA): The privatization alternatives were evaluated in comparison with the Status Quo (Should Cost) alternative. The LCCAs of each alternative were developed utilizing UPEAST 6.0. The results of the LCCA for Government Ownership and the Contractor Ownership Best Value Alternative are summarized in the following tables:

Alternatives	Period (Years)	Net Present Value ($)	Equivalent Uniform Annual Cost	Annual Cost Avoidance	
				$	%
Government Owned	50	$ 36.779 M	$ 1.996 M		
Contractor Ownership	50	$ 27.120 M	$ 1.472 M	$ .524 M	26.3%

Conclusions and Recommendations: Privatization of the O'ahu Wastewater Utility System is economical. Additionally, the following findings are provided:

1. The privatization of the O'ahu Wastewater Utility System will eliminate the need for the installation to perform these functions and will allow a firm whose competence is wastewater utility system operation and maintenance to operate and maintain the system.

2. The privatization of the O'ahu Wastewater Utility System assures the capability of future upgrades and additions to these systems.

3. This privatization action will be a cost-effective means to provide safe and reliable wastewater utility services to the sub-posts.